



BUDGET REVIEW COMMISSION

MINUTES

THURSDAY, FEBRUARY 25, 2010

**CITY HALL KIVA FORUM
3939 N. DRINKWATER BLVD.
SCOTTSDALE, AZ 85251**

PRESENT: Louis Schmitt, Chair
Scott Miller, Vice Chair
Bob Berlese, Commissioner (arrived 5:13 p.m.)
Eric Borowsky, Commissioner
Martha Ecton, Commissioner
Michael Foster, Commissioner
Donna Reagan, Commissioner

STAFF: David Richert, Acting City Manager
David Smith, Interim City Treasurer
Dan Worth, Public Works Executive Director
Paul Norman, Sr. Asst. City Attorney
Velicia McMillan, Human Resources Administrator
Brent Stockwell, Senior Advisor
Judy McIlroy, Budget Manager
Lee Guillory, Finance Manager
Ken Nemec, Benefits Manager

ALSO PRESENT: Bill Banchs, President and CEO, Scottsdale Cultural Council

CALL TO ORDER / ROLL CALL

Chairman Schmitt called the Budget Review Commission to order at 5:04 p.m. A formal roll call was conducted confirming members present as stated above.

Approval of Minutes – January 28, 2010

**COMMISSIONER ECTON MOVED TO APPROVE THE JANUARY 28, 2010
REGULAR MEETING MINUTES. SECONDED BY COMMISSIONER REAGAN,
THE MOTION PASSED BY A VOTE OF SIX (6) TO ZERO (0).**

1. Public Comment

No member of the public wished to address the Commission.

Acting City Manager David Richert stated staff has done a considerable amount of work regarding bond issues. In regard to healthcare benefits, Council has indicated it would like the Commission to consider adjustments to the amount employees pay for their benefits.

2. Staff presentation, discussion, and possible action on revised Bond 2010 projects

Dan Worth stated Council has informed staff they believe the bond package was too big, and expressed concern that now is not the right time for a bond package of that size. It would like to see bond issues scaled back, with a focus on what the City really needs. Other issues could be revisited in three to four years when the economy is better and citizens are more receptive to bond issues. Projects like the Desert Discovery Center and the WestWorld Multi-Purpose Building need more work and research, and should be separated from the rest of the Economic Vitality question and presented as a separate question in this bond election, or in a future election.

Mr. Worth gave a PowerPoint presentation reviewing each bond question for the Commission:

Parks, Libraries and Senior Facilities

- Grayhawk Park Off-Leash Area and expansion of Via Linda Senior Center added
- Technology infrastructure and archive document equipment moved from the economic vitality question

Public Safety

- Remove the police special investigations building, as it is an activity that is adequately housed in a leased facility
- Remove purchasing land for a north police facility; it is not an urgent requirement and can be done later.
- The two fire stations remain in the question as more important short-term needs.

Economic Vitality

- Reduction of the Equidome project to \$15 million, as staff originally proposed.
- Desert Discovery Center removed from the Economic Vitality question and made a separate question.
- Technology infrastructure was moved to the Parks, Libraries and Senior Facilities Question.
- Find more appropriate funding source for the \$7.5 million contribution to the Museum of the West, LLC.
- \$9.6 million for Performing Arts Center renovations was added

Neighborhood Flood Control

- Alleviate recurring flooding in the Pima Acres subdivision

Transportation

- Accessible curb ramps, pavement replacement, Airpark improvements, canal bank improvements, and trails were reduced to better reflect projects that could be completed within a three-year time frame.
- Pima Road Happy Valley to Dynamite regional MAG funding project was removed

Desert Discovery Center

- Added as a separate question. A final determination will be made after further study.

WestWorld multi-purpose building

- Added as a separate question. A final determination will be made after further study.

Questions one through five have been reduced from \$330 million to \$238 million, and the Desert Discovery Center and the WestWorld multi-purpose building have been separated as independent questions.

Vice Chair Miller asked what Phase Three at the Performing Arts Center entails. Bill Banchs, President and CEO of Scottsdale Cultural Council, explained it would complete the renovation. Phase One and Two renovated the theatre and the atrium; however, some of the work was deferred to this year. Phase Three would also include Stage Two, the small theatre, which has not been renovated in over 30 years. The restaurant and kitchen, a revenue-producing venue, would be completed, as well as the mezzanine level and gift shop. In addition, the last phase would replace the north and south doors, and add an acoustic enhancement system.

Chair Schmitt asked whether the list could be prioritized for further review. Mr. Banchs stated he would prepare that information and return to the Commission later.

Commissioner Reagan asked if the questions in Mr. Worth's presentation were listed in order of importance, or if some items are more critical than others. Mr. Worth explained the list was not presented in order of priority; all items that remain on the list at this stage in the process have gone through very stringent reviews and are considered critical.

In response to an inquiry from Commissioner Reagan, Mr. Worth indicated that if any of the questions do not pass, the City would have to use its own limited funding sources for capital requirements and make a decision regarding which ones get done.

Commissioner Foster expressed concern about spending \$5 million for public restrooms, and asked if those improvements are critical at this time. Mr. Worth stated while the restrooms are functional, deficiencies exist, particularly with regard to accessibility. The City is required by law to meet accessibility standards, and in some cases it does not.

Vice Chair Miller asked for clarification regarding Council direction and staff's intention on new questions six and seven. Mr. Worth explained that Council wishes to remove those items from the Economic Vitality question, further development their requirements, and consider them as separate questions either in this bond election or in a future one.

3. Staff presentation, discussion, and possible action on January 2010 Financial Report

David Smith presented the January 2010 Financial Report, noting it has already been presented to the Council. He gave a PowerPoint presentation outlining the details of the report.

Local sales taxes have consistently done better than budgeted over the past seven months, and are \$1.9 million above the budgeted amount; however, in January bed taxes were down from budget by approximately \$400,000, and will probably come in \$2 million under the budgeted amount for the year.

In regard to operating uses, the biggest savings is in the area of personnel services, which is doing better than budget by \$2 million. Much of this is from overtime savings in the Police Department.

Mr. Smith reviewed projected year-end balances, noting the projected Bed Tax deficit, and \$1 million deficit in State shared revenue. City sales tax will come in better than budgeted expectations. On the expense side, vacancy savings will not be as favorable as budgeted. Overtime savings will continue, and may come in over \$500,000 under budget. Contractual services should be favorable by approximately \$1 million.

A policy decision should be made to address the question of whether the City should bolster tourism with a loan or other means of income to counteract the bed tax shortfall.

Commissioner Ecton asked whether the Economic Vitality employee salaries should be charged to the City, rather than the CVB. Mr. Smith explained he is in the process of reviewing budget balancing strategies for the year. If the accounting is good, the charges should continue.

Mr. Smith continued with his presentation, stating the Bonding State Test has the City's assessed valuation at \$8.2 billion, which will reduce by 13 percent in the coming year, and probably by another 15 percent the year after. The indebtedness limitation will therefore be reduced; however, the City will still be comfortably within the margin of entitlement.

In response to an inquiry by Commissioner Borowsky regarding January's expenses, Mr. Smith explained the \$1.6 million amount over budget does not represent a trend; it was a matter of the timing of a payment.

COMMISSIONER REAGAN MOVED TO APPROVE THE JANUARY 2010 FINANCIAL REPORT. VICE CHAIR MILLER SECONDED THE MOTION, WHICH PASSED BY A VOTE OF SEVEN (7) TO ZERO (0).

4. Staff presentation and discussion on preliminary FY 2010/11 Use and Source Forecasts

Mr. Smith gave a PowerPoint presentation describing the sources and uses for FY 2010/2011, noting the most important source of funding for the City is the sales tax. Forecasts estimate \$99.9 million in collected sales taxes by the end of FY 2009/2010.

Next year is forecasted to be approximately the same. There will be an increase in property taxes next year.

State shared revenues are expected to decline \$6.4 million next year.

Bed tax is expected to remain at approximately \$6.5 million for FY 2010/2011.

In 2009/2010, the City received \$4.6 million in stimulus funds. Only \$2.6 million will be spent this year and the remaining \$2 million will carry over to FY 2010/2011, as will the spending associated with those funds.

Mr. Smith reviewed uses, indicating that personnel services spending will be approximately \$176.5 million for FY 2009/2010, and slightly less next year.

Contractual Services for FY 2009/2010 are forecasted at \$73.6 million.

Risk reserves have been evaluated and have been determined to be high. This will result in a reduction of \$1.5 million in self-insured costs for FY 2010/2011.

In response to an inquiry by Chair Schmitt, Mr. Smith stated that looking at sources versus uses, the City currently has a projected shortfall of approximately \$14.5 million. The \$7.1 million of prior year under-spends could be used to reduce that number.

Brent Stockwell explained the City is required by law to have a balanced budget. Departments and divisions have submitted estimates for next year's expenses, and staff is reviewing potential changes and charges in the internal service funds, utility rates, et cetera, and will revise estimates in order to present a balanced budget.

Commissioner Berlese asked for clarification regarding the \$1.2 million in COPs. Mr. Smith explained that stands for Certificates of Participation, which are debt payments related to the fire and police headquarters, including debt that the City may occur related to the radio financing.

Lee Guillory stated the City currently has a project underway to build a radio system for communication between the police and fire departments, so that they can communicate with each other and surrounding cities. The system will also alleviate communication dead spots within the City. The project has already started and money is being expensed for it.

Commissioner Berlese asked whether it would be possible to use MPC funding for the radio project. Mr. Smith stated that they could, however there is no source of funding for that either.

The Commission and staff discussed financing options for the police radio project and other unfunded projects. Commissioner Borowsky stated he strongly recommends determining a way to fund the projects through some dedicated revenue source.

5. Staff presentation and discussion on Employee Benefits, including possible action regarding premium contribution rates for health and dental benefits for FY 2010/11

Mr. Stockwell noted that this item would be going before the Council on March 2nd for discussion.

Benefit Manager Ken Nemec reviewed the City health and dental plans and their performance, noting they are all self-insured plans. Claims are running below national trends, likely due to employee health and participation in wellness programs.

Currently, employees pay from 3.4 to 10.9 percent of the monthly premium in the Aetna EPO Plan, which covers 86 percent of employees. Part-time employees pay more, and retirees pay the full monthly premium. Employees enrolled in the Aetna High-Level PPO plan pay the additional amount required for the higher-level plan. For comparable plans, other Valley cities are charging their employees more for premiums.

Based on historical trends within the City, staff proposes no change to the full medical plan premiums or dental rates for FY 2010/2011. However, there is a recommendation to change the premium sharing rate to 85/15, implemented over a two-year period. A 15 percent employee share would increase a single person's contribution from \$12 to \$32 in FY 2010, and to \$52 in FY 2011. This would equate to a \$500,000 savings for the City in FY 2010/2011, and \$1 million in FY 2011/2012 and each fiscal year thereafter.

Commissioner Ecton asked if there are employees who pay no monthly premium at all. Mr. Nemec explained employees enrolled in the high deductible basic PPO plan that carries a \$1,750 per person deductible do not pay a monthly premium. Mr. Smith stated there might be a migration of people into that plan when premiums go up, which would be cost-effective for the City since it is a very low-cost program.

Mr. Nemec reviewed the City's Live Life Well Program, and indicated staff is proposing a \$120 incentive for covered employees and spouses that participate in a biometric screening and health risk assessment next year. This could help drive healthcare costs down for the City.

A \$50 co-payment for complex medical imaging such as CAT and MRI scans has been recommended, as well as an increase to the chiropractic and physical and occupational therapy co-pays from \$15 to \$20.

Vice Chair Miller stated virtually no private sector employee working in Scottsdale has the kind of benefit package that City employees have, and indicated he rejects the idea that the City would have trouble recruiting employees if they offered a less robust package.

Chair Schmitt asked whether staff has considered converting the leave and medical leave systems to a paid time off system, and Mr. Nemec indicated they have not. Paying medical and/or vacation leave time off at the time of retirement or end of employment can be expensive. He asked for information regarding the City's liability in those categories.

Commissioner Reagan said while she has always supported taking care of employees, the City seems to be going overboard in taking care of spouses and children. She asked what the strategy is for cost sharing and out-of-pocket expenses over the next five years. Mr. Nemec stated that the strategy is changing the sharing percentage to 85/15.

Commissioner Berlese discussed converting to a personal time off system.

Chair Schmitt expressed his support for the Live Life Well Program.

Commissioner Berlese asked whether the employee premium amounts are pre-tax, and Mr. Nemec indicated that they are.

Vice Chair Miller said the increased cost sharing is still short of other city averages, especially in the employee and family category.

In response to an inquiry by Vice Chair Miller, Mr. Nemec explained the City does not compare itself to the private sector; rather, it compares itself to similar cities. Other cities' employees may pay higher rates, but the benefits are very comparable.

The Commission and staff discussed the City's benefits as compared to the private sector and other Valley cities.

Chairman Schmitt asked each member to share their views on the proposal, and then he summarized the consensus of the Commission that staff has done a good job in the presentation and proposal of health and dental rates. The two-year phase-in of the increased cost sharing proposal was a good idea. The rates should be reviewed again next year and should take into consideration the premium and rate changes of other valley cities. It was agreed that this was the consensus of the Commission.

6. Discussion and possible action on draft agenda for March 25, 2010

Mr. Stockwell stated the Commission would discuss the City's Comprehensive Adopted Financial Policies at its next meeting.

Chair Schmitt stated he would like to propose a policy that requires a five-year pro forma each year, specifically addressing the debt load.

Commissioner Borowsky suggested addressing indebtedness that impacts the General Fund.

Mr. Stockwell stated the Commission would also address rates and fees at the next meeting, as well as the capital improvement plan.

ADJOURNMENT

With no further business to discuss, the meeting adjourned at 7:55 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz

Reviewed by,
Brent Stockwell, Senior Advisor

Officially approved by the Commission on April 1, 2010.